

Message Text

CONFIDENTIAL

PAGE 01 JAKART 04922 141909Z

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ACTION EA-09

INFO OCT-01 ISO-00 EB-07 L-03 SP-02 SS-15 SSO-00 INR-07

INRE-00 EAE-00 /044 W

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C O N F I D E N T I A L JAKARTA 4922

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E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: INDONESIAN-CALTEX NEGOTIATIONS

REF: JAKARTA 4855

1. ROBERT MARTIN, CALTEX PACIFIC INDONESIA SHAREHOLDERS
REP, CALLED ON E/CM COUNSELOR APRIL 14 TO PROVIDE COPY OF
LETTER ADDRESSED TO PRESIDENT SUHARTO FROM MESSRS. GRANVILLE
AND HAYNES AS CHAIRMAN AND CHIEF EXECUTIVE OFFICERS OF
TEXACO AND SOCAL DATED 12 APRIL. TEXT OF LETTER AS
FOLLOWS:

"YOUR EXCELLENCY,

AS THE CHAIRMEN AND CHIEF EXECUTIVE OFFICERS OF TEXACO,
INC. AND STANDARD OIL COMPANY OF CALIFORNIA, WE HAVE TAKEN
A PERSONAL INTEREST IN AND HAVE FOLLOWED CAREFULLY THAT DIS-
CUSSIONS BETWEEN THE CPI STOCKHOLDERS' REPRESENTATIVES AND
THE REPRESENTATIVES OF THE GOVERNMENT OF INDONESIA ON THE
MATTER OF INCREASED PAYMENTS TO THE GOVERNMENT BEYOND
EXISTING AGREEMENTS WHICH HAVE BEEN REQUESTED BY THE LETTER
FROM YOUR MINISTER DATED APRIL 1, 1976. PRIOR TO THE
RECEIPT OF THIS LETTER, WE HAD BEEN AWARE OF THE GOVERN-
MENT'S INTEREST IN INCREASED REVENUES AND WE HAD BEEN VERY
CONCERNED ABOUT THE IMPACT OF SUCH A REQUEST ON THE OPERATIONS
OF CPI. IT WAS FOR THIS REASON THAT WE HAD IN MID MARCH
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 04922 141909Z

REQUESTED THE OPPORTUNITY TO DISCUSS THIS MATTER DIRECTLY

WITH YOUR EXCELLENCY. WE REGRET THAT A MEETING COULD NOT BE ARRANGED, BUT WE DID APPRECIATE THE OPPORTUNITY TO DISCUSS OUR CONCERN WITH MINISTER SADLI AND GENERAL HARYONO.

AS A RESULT OF THIS DISCUSSION, OUR REPRESENTATIVES RETURNED TO JAKARTA AND ON APRIL 11TH SUBMITTED A SUBSTANTIALLY IMPROVED PROPOSAL DESIGNED, THROUGH A COMBINATION OF INCREASED PER BARREL PAYMENTS AND THE PROSPECT OF INCREASED PRODUCTION AND LIFTINGS, TO ACCOMMODATE WHAT WE UNDERSTOOD

WERE THE GOVERNMENT'S FINANCIAL OBJECTIVES.

AT THE VERY TIME THIS PROPOSAL WAS BEING TABLED, THE INTERNAL REVENUE SERVICE OF THE UNITED STATES ANNOUNCED ITS INTENTION TO ISSUE REVISED INTERPRETATIONS WHICH WOULD CALL INTO QUESTION THE TAX PAID COST OF CRUDE OIL FOR MOST OPERATORS IN INDONESIA. THE SERIOUSNESS OF THIS LATTER MATTER, COUPLED WITH THE ADDED COST BURDEN OF ADDITIONAL INCREASES REQUESTED BY YOUR GOVERNMENT, PROMPTS US TO COMMUNICATE DIRECTLY WITH YOU TO REQUEST ADEQUATE TIME AND PROCEDURES TO CONSIDER THESE MATTERS. IN OUR OPINION THE FAR-REACHING, POSSIBLY ADVERSE CONSEQUENCES OF MOVES MADE UNDER ARBITRARY DEADLINES ARE SO SERIOUS AS TO WARRANT THIS DIRECT APPEAL.

WE ARE PREPARED TO UNDERTAKE A COMMITMENT TO ADJUST BACK TO JANUARY 1, 1976, SUCH NEW ARRANGEMENTS AS MIGHT BE AGREED. WITH THIS ASSURANCE, WE WOULD HOPE THAT THE DATE OF APRIL 15TH WHICH WAS REFERRED TO IN PROF. SADLI'S APRIL 1 LETTER, WOULD NOT BECOME CRITICAL.

AS CHAIRMEN AND CHIEF EXECUTIVES, BOTH OF US ARE FACED WITH STATUTORY AND BUSINESS RESPONSIBILITIES ASSOCIATED WITH OUT RESPECTIVE ANNUAL MEETING OF STOCKHOLDERS, WHICH ARE SCHEDULED APRIL 27TH FOR TEXACO AND MAY 4 TH FOR SOCAL. UPON CONCLUSION OF THESE MEETINGS WE WOULD APPRECIATE AN OPPORTUNITY TO COME TO INDONESIA AND TO REVIEW THESE MATTERS WITH YOU TO THE FULLEST EXTENT. OUT OF THIS WE WOULD HOPE TO DEVELOP A MUTUALLY AGREED COURSE OF ACTION WHICH WOULD PROMOTE CONTINUED EXPANSION OF OPERATIONS. WE BELIEVE THAT SUCH CONDITIONS BETTER SERVE ALL INTERESTS THAN MEASURES UNILATERALLY DIRECTED.

AS AN INDICATION OF OUR SINCERITY IN THIS MATTER, WE ARE, IN CONNECTION WITH THE NORMAL CONTRACTUAL PAYMENTS
CONFIDENTIAL

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PAGE 03 JAKARTA 04922 141909Z

DUE ON APRIL 15TH SUBMITTING A RENEWAL OF OUR OFFER OF APRIL 11TH, WHICH OFFER WAS DEVELOPED WITH FULL PROSPECT OF MEETING THE GOVERNMENT'S INDICATED OBJECTIVE.

YOURS RESPECTFULLY,
M. F. GRANVILLE
H.J. HAYNES"

2. MARTIN ADVISED THAT HE HAD BEEN INFORMED BY MINMINES

SADLI THAT BOTH PRESIDENT AND HE HAD REVIEWED LETTER AND INFORMALLY INDICATED IT DOES NOT CHANGE SITUATION AND RESPONSE WILL PROBABLY BE SAME AS RESPONSE TO OFFER MADE REFTEL.

3. MARTIN REPORTED THAT CALTEX PEOPLE IN NEW YORK NOW PREPARING NEW OFFER WHICH GOES "FURTHERIN MEETING GOI DEMANDS FOR INCREASED PER BARREL TAKE". MARTIN ADDED THAT SUCH OFFER WILL INDICATE THAT CALTEX WILL NOT BE ABLE TO MEET ITS PLANNED PRODUCTION EXPANSION AS SET FORTH IN APRIL 11 OFFER.

4. MARTIN REITERATED THAT HIS PEOPLE IN NEW YORK WERE MORE AND MORE CONCERNED REGARDING IRS RULING AND NOW FOCUSING ON FORTHCOMING OPEC MEETINGS IN BALI AS POSSIBLE ADDITIONAL DISQUIETING FACTOR. MARTIN NOTED THAT ANY COMMITMENTS IN INDONESIA IN REGARD TO PER BARREL TAKE INCREASE COULD BE UNFAVORABLY AFFECTED BY AN OPEC DECISION TO INCREASE PRICES SIGNIFICANTLY. HE HAD NO KNOWLEDGE THAT THIS WOULD BE THE CASE, HOWEVER.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, AGREEMENTS, NEGOTIATIONS, DIPLOMATIC COMMUNICATIONS, PROFIT SHARING, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 APR 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART04922
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760144-0036
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760463/aaaacbsa.tel
Line Count: 135
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 76 JAKARTA 4855
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2004 by greeneet>; APPROVED <20 SEP 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INDONESIAN-CALTEX NEGOTIATIONS
TAGS: ENRG, ID, US, TEXACO, CALTEX, (MARTIN, ROBERT H)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006